

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2010-7-G - ORDER NO. 2010-689
OCTOBER 13, 2010

IN RE: Application of Piedmont Natural Gas)	INITIAL ORDER
Company, Inc. to Have the Terms of the)	APPROVING
Natural Gas Rate Stabilization Act Apply to)	QUARTERLY
the Company's Rates and Charges for Gas)	MONITORING REPORT
Distribution Services)	AND ADOPTING
)	SETTLEMENT
)	AGREEMENT

This matter comes before the Public Service Commission of South Carolina (the Commission) pursuant to S.C. Code Ann. §§ 58-5-420(2) and 58-5-455, a portion of the Natural Gas Rate Stabilization Act, as related to Piedmont Natural Gas Company, Inc. (Piedmont or the Company). Order No. 2005-491 established a baseline for the Company under the Act, based on the Company's last rate case. See Order No. 2002-761. Section 58-5-455 sets out a procedure for the handling of monitoring reports under the Act related to the quarter ending March 31, which we detailed in Order No. 2005-491 at 5.

Briefly, under Section 58-5-455, the Company files the monitoring reports with the Commission and the Office of Regulatory Staff (ORS). Parties may comment on the reports. Where it appears to the Commission or ORS that an adjustment in rates may be warranted, ORS shall conduct an audit of the monitoring report and specify any changes that it determines are necessary to correct errors in the report or to otherwise bring the report into compliance with the statute. Parties may comment on the ORS audit. On or

before October 15, the Commission shall issue an initial order setting forth any changes required in the utility's request to adjust rates under the statute. Any gas rate adjustments authorized under the terms of the statute shall take effect for all bills rendered on or after the first billing cycle of November of that year. This present order is the "initial order" contemplated by S.C. Code Ann. Section 58-5-455 for Piedmont.

Pursuant to the South Carolina Natural Gas Rate Stabilization Act ("Act"), Piedmont submitted its quarterly monitoring report for the twelve-month period ending March 31, 2010, as well as the required revenue calculations and any proposed changes to its tariff rates necessary to permit Piedmont the opportunity to earn the rate of return on common equity established in its last general rate case as specified in Section 58-5-420(1).

The ORS conducted a review of Piedmont's Monitoring Report for the twelve-month period ending March 31, 2010, to evaluate compliance with Section 58-5-430 and Section 58-5-440 of the Act. The ORS proposed certain adjustments to reported amounts to bring the report into conformance with those sections. Piedmont filed written comments advising the Commission that Piedmont had no objection to or comments on the findings and adjustments reflected in the ORS Audit Report.

A Settlement Agreement was reached by and among Piedmont and ORS (collectively, the Parties). The Settlement Agreement and exhibits are attached hereto as Order Exhibit 1. Under the terms of the Settlement Agreement, Piedmont will implement rates for the twelve-month period beginning with the first billing cycle of November 2010, calculated on the basis of an 11.3% return on equity (ROE). The Parties agree that

Piedmont will adopt the accounting adjustments of ORS as set forth in Schedule 2 attached to the Settlement Agreement. The Parties further agree that, based upon the accounting adjustments proposed by ORS and adopted by Piedmont, and the agreement of Piedmont to implement rates based upon an 11.3% ROE, South Carolina ratepayers will realize an increase in current margin rates totaling \$750,000. The Settlement Agreement states that this equates to a reduction of \$2,405,000 for South Carolina ratepayers when compared to rates calculated on Piedmont's authorized 12.6% ROE, which is authorized by Commission Order Nos. 2002-761, 2005-491, and 2005-567. The Parties further agree to a decrease in both revenue and expenses of \$925,101. This includes a decrease in demand and commodity cost of \$918,380, comprised of a decrease in demand cost over-recovery of \$512,264 and a decrease in commodity cost of \$406,116.

We have examined the accounting and pro forma adjustments proposed and agreed upon by the parties, as well as the Settlement Agreement, and we take no exception to them. The Settlement Agreement results in a net revenue decrease of \$175,101.

FINDINGS AND CONCLUSIONS

1. S.C. Code Ann. Section 58-5-455, a portion of the Natural Gas Rate Stabilization Act, requires the filing of certain documents and the issuance of this Initial Order.
2. Changes are required to the Company's request to adjust rates.

3. ORS has suggested certain changes to which Piedmont does not object, as outlined above. Indeed, the parties have reached a Settlement Agreement.

4. This Commission has found no other changes appropriate or necessary other than those agreed to by the parties.

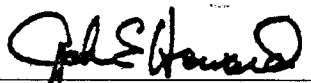
5. The Settlement Agreement is approved. This Commission adopts the changes and adjustments proposed by the parties and the resulting rates and charges.

6. The new approved rates and charges shall be effective for bills rendered on and after the first billing cycle in November 2010, subject to changes under the Company's Gas Cost Recovery Mechanism.

7. The Company shall file new tariffs prior its first billing cycle in November 2010 to reflect the rates and charges approved herein adjusted for its most recent Gas Cost Recovery Mechanism filing.

8. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:



John E. Howard, Chairman

ATTEST:



David A. Wright, Vice Chairman
(SEAL)

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2010-7-G

September 1, 2010

IN RE:

Application of Piedmont Natural Gas)	
Company, Incorporated to Have the Terms)	
of the Natural Gas Rate Stabilization Act)	SETTLEMENT AGREEMENT
Apply to the Company's Rates and Charges)	
for Gas Distribution Services)	

This Settlement Agreement is made by and among the Office of Regulatory Staff of South Carolina ("ORS") and Piedmont Natural Gas Company, Inc. ("PNG") (collectively referred to as the "Parties" or sometimes individually as a "Party").

WHEREAS, by Public Service Commission of South Carolina ("Commission") Order Nos. 2005-491, dated September 28, 2005, and 2005-567, dated October 13, 2005, the Commission established a baseline for PNG under the Natural Gas Rate Stabilization Act (the "Act") and approved certain accounting adjustments proposed by ORS and PNG;

WHEREAS, pursuant to S.C. Code Ann. § 58-5-455 (Supp. 2009), PNG filed its Quarterly Monitoring Report and Proposed Rate Changes with the Commission on June 15, 2010 for the review period consisting of April 1, 2009 through March 31, 2010 ("Review Period");

WHEREAS, the Report of ORS' examination of PNG's Monitoring Report for the Twelve-Month Period Ending March 31, 2010, pursuant to the Act, was filed with the Commission on September 1, 2010;

WHEREAS, the Parties to this Settlement Agreement are the only parties of record in the above-captioned docket;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of this proceeding would be in their best interest; and

WHEREAS, following those discussions the Parties have each determined that their interests, and ORS has determined that the public interest, would be best served by settling the above-captioned case under the terms and conditions set forth below:

1. PNG will implement rates for the twelve-month period beginning with the first billing cycle of November 2010 calculated on the basis of an 11.3% Return On Equity ("ROE") instead of the 12.6% ROE approved by Commission Orders No. 2002-761, 2005-491, and 2005-567.

2. The Parties agree that the following are the only attachments to this Settlement Agreement: Schedule 1 (Net Operating Income and Rate of Return); Schedule 2 (Explanations of Accounting and Pro Forma Adjustments); and Schedule 3 (Average Weighted Cost of Capital).

3. The Parties agree that PNG will adopt the accounting adjustments of ORS as set forth in Schedule 2 as attached to this Settlement Agreement.

4. The Parties agree that, based upon the accounting adjustments proposed by ORS and adopted by PNG, and the agreement of PNG to implement rates based on an 11.3% ROE, South Carolina ratepayers will realize an increase in current margin rates totaling \$750,000. As shown in the ORS staff report, this equates to a reduction of \$2,405,000 for South Carolina ratepayers when compared to rates calculated on PNG's authorized 12.6% ROE.

5. The Parties agree to a decrease in demand and commodity cost of \$918,380, comprised of a decrease in demand cost over recovery of \$512,264 and a decrease in commodity cost of \$406,116.

6. This decrease of \$406,116 in commodity cost is due to a reduction in the lost and unaccounted for ("LAUF") factor from 2.16% to 1.77%. (See Schedule 2, Adjustment 19).

7. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable and full resolution of the above-captioned proceeding. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

8. The Parties agree that by signing this Settlement Agreement, it will not constrain, inhibit or impair their arguments or positions in future proceedings. Should the Commission decline to approve the agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty.

9. This Settlement Agreement shall be interpreted according to South Carolina law.

10. Each Party acknowledges its consent and agreement to this Settlement Agreement by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

September 1, 2010

[SIGNATURE PAGES FOLLOW]

WE AGREE:

Representing and binding the Office of Regulatory Staff

A handwritten signature in cursive script, reading "Nanette S. Edwards", is written over a horizontal line.

Nanette S. Edwards, Esquire
Office of Regulatory Staff
1401 Main Street, Suite 900
Columbia, SC 29201
Phone: (803) 737-0575
Fax: (803) 737-0895
Email: nsedwar@regstaff.sc.gov

WE AGREE:

Representing and binding Piedmont Natural Gas Company, Inc.

A handwritten signature in black ink, appearing to read "James H. Jeffries, IV", is written over a horizontal line.

James H. Jeffries, IV, Esquire
Moore & Van Allen, PLLC
100 North Tryon Street, Ste. 4700
Charlotte, NC 28202
Phone: 704-331-1079
Fax: 704-339-5879
Email: jimjeffries@mvalaw.com

Settlement Schedule 1

Piedmont Natural Gas Company
South Carolina Operations
Net Operating Income and Rate of Return
For the Twelve Months Ended March 31, 2010
Docket No. 2010-7-G

	(1) Per Regulatory Books	(2) ORS Accounting and Pro Forma Adjustments	(3) ORS As Adjusted	(4) Adjustments for Proposed Margin Increase	(5) Adjustments for Demand and Commodity Cost	(6) Total After Proposed Rates
Operating Revenues						
1 Sale and Transportation of Gas	\$ 187,815,338	\$ (18,130,137)	(1) \$ 169,685,199	\$ 750,000	(12) \$ (925,101)	(18) \$ 169,510,098
2 Other Operating Revenues	867,306	0	867,306			867,306
3 Total Operating Revenues	188,682,642	(18,130,137)	170,552,505	750,000	(925,101)	170,377,404
Operating Expenses						
4 Cost of Gas	118,713,478	(19,898,053)	98,815,425		(918,380)	97,897,045
5 Operations and Maintenance	27,445,379	(801,712)	26,643,667	1,797	(2,216)	26,643,248
6 Depreciation	12,000,768	567,410	12,568,178			12,568,178
7 General Taxes	6,984,689	(177,227)	6,807,462	3,652	(4,505)	6,806,609
8 State Income Taxes	1,267,481	(269,028)	998,453	37,228	(15)	1,035,681
9 Federal Income Taxes	5,838,036	778,879	6,616,915	247,563	(16)	6,864,478
10 Amortization of Investment Tax Credits	(31,677)		(31,677)			(31,677)
11 Total Operating Expenses	172,218,154	(19,799,731)	152,418,423	290,240	(925,101)	151,783,562
12 Net Operating Income	16,464,488	1,669,594	18,134,082	459,760	0	18,593,842
13 Interest on Customers' Deposits	(138,597)		(138,597)			(138,597)
14 Amortization of Debt Redemption Premium	(6,363)	20	(6,343)			(6,343)
15 Allowance for Funds Used During Construction	29,764		29,764			29,764
16 Customer Growth	73,467	8,499	81,966	2,078	(17)	84,044
17 Net Operating Income for Return	\$ 16,422,759	\$ 1,678,113	\$ 18,100,872	\$ 461,838	\$ 0	\$ 18,562,710
Original Cost Rate Base:						
18 Plant in Service	\$ 387,064,056	0	\$ 387,064,056			\$ 387,064,056
19 Accumulated Depreciation	(158,262,732)		(158,262,732)			(158,262,732)
20 Net Plant in Service	228,801,324	0	228,801,324			228,801,324
21 Add:						
22 Construction Work in Progress	3,000,099	(90,681)	2,909,418			2,909,418
23 Materials and Supplies	15,190,710		15,190,710			15,190,710
24 Cash Working Capital	2,015,191	(133,007)	1,882,184			1,882,184
25 Deduct:						
26 Customers' Advances	0		0			0
27 Customers' Deposits	4,290,902		4,290,902			4,290,902
28 Accumulated Deferred Income Taxes	47,636,510		47,636,510			47,636,510
29 Unclaimed Funds	346,516		346,516			346,516
30 Original Cost Rate Base:	\$ 196,733,396	\$ (223,688)	\$ 196,509,708			\$ 196,509,708
31 Rate of Return	8.35%		9.21%			9.45%
32 Return on Equity	9.42%		10.90%			11.30%

Settlement Schedule 2

**Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
Twelve Months Ended March 31, 2010
Docket No. 2010-7-G**

Line No.	Description	Per Piedmont	Per ORS
1	<u>Operating Revenues - Sale and Transportation of Gas</u>		
	To decrease revenues on a going-level basis.	\$ (16,543,721)	\$ (18,130,137)
	<u>Total Operating Revenues - Sale and Transportation of Gas</u>	\$ (16,543,721)	\$ (18,130,137)
2	<u>Cost of Gas</u>		
	To decrease cost of gas on a going-level basis.	\$ (19,898,053)	\$ (19,898,053)
	<u>Total Cost of Gas</u>	\$ (19,898,053)	\$ (19,898,053)
3	<u>Operations and Maintenance Expenses</u>		
a.	To annualize the payroll expense as of March 31, 2010, and to disallow officer salary increases in conformance with PSC Order No. 2002-761, dated November 1, 2002.	\$ (74,514)	\$ (74,514)
b.	To decrease expenses for the salary and payroll investment plan. The plan allows participants to defer a portion of their base salary and the Company matches a portion of the participant's contribution.	(15,940)	(15,940)
c.	To adjust pension costs included in the filing.	206,366	206,366
d.	To adjust uncollectible gas cost expense utilizing the method approved in Docket No. 2006-4-G, Order No. 2006-527, dated October 11, 2006. This removes uncollectible gas cost expense from base rates and records the amount in account #253.04. The applicable uncollectible gas cost rate is .23955%.	(238,023)	(247,122)
e.	To decrease expenses for allocations to non-utility activities.	(19,386)	(19,386)
f.	To increase expenses for the Long-Term Incentive Plan.	46,364	46,364
g.	To decrease expenses for the Short-Term Incentive Plan.	(279,275)	(279,275)
h.	To decrease expenses for the MVP Incentive Plan.	(273,305)	(273,305)

Settlement Schedule 2

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
Twelve Months Ended March 31, 2010
Docket No. 2010-7-G

Line No.	Description	Per Piedmont	Per ORS
i.	To decrease expenses for group insurance.	(5,225)	(5,225)
j.	To increase expenses for the Piedmont Town Center lease.	5,857	5,857
k.	To increase expenses for Piedmont Town Center CAM expense.	1,194	1,194
l.	To increase expenses for amortization of early retirement incentive.	151,229	151,229
m.	To increase expenses for the South Carolina assessment fee.	11,716	17,648
n.	To decrease expenses for items that are nonallowable for ratemaking purposes.	(151,715)	(284,453)
o.	To decrease expenses for Gas Technology Institute dues that are recovered 100% from North Carolina ratepayers.	(31,150)	(31,150)
p.	To decrease expense for the Stock Rescission Fees.	0	0
	Total Operations and Maintenance Expense	\$ (665,807)	\$ (801,712)
4	Depreciation Expense		
	To increase depreciation expense on a going-level basis using the most current depreciation study rates.	\$ 596,650	\$ 567,410
	Total Depreciation Expense	\$ 596,650	\$ 567,410
5	General Taxes		
a.	To decrease property taxes on a going-level basis.	\$ (24,011)	\$ (24,011)
b.	To decrease payroll tax expense.	(64,926)	(64,926)
c.	To decrease franchise taxes (rate of .3%) and gross receipts tax (rate of .18698%) for the adjustment made to decrease revenues on a going-level basis.	0	(88,290)
	Total General Taxes	\$ (88,937)	\$ (177,227)
6	State Income Taxes		
	To adjust state income taxes (rate of 5%) to reflect the impact on income of accounting and pro forma adjustments.	\$ (202,705)	\$ (269,028)
	Total State Income Taxes	\$ (202,705)	\$ (269,028)

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
Twelve Months Ended March 31, 2010
Docket No. 2010-7-G

Settlement Schedule 2

Line No.	Description	Per Piedmont	Per ORS
7	<u>Federal Income Taxes</u>		
	To adjust federal income taxes (rate of 35%) to reflect the impact on income of accounting and pro forma adjustments.	\$ 1,219,926	\$ 778,879
	<u>Total Federal Income Taxes</u>	<u>\$ 1,219,926</u>	<u>\$ 778,879</u>
8	<u>Amortization of Debt Redemption Premium</u>		
	To increase net operating income for amortization of debt redemption premium.	\$ 20	\$ 20
	<u>Total Amortization of Debt Redemption Premium</u>	<u>\$ 20</u>	<u>\$ 20</u>
9	<u>Customer Growth</u>		
	To adjust net operating income to reflect an anticipated increase in customer growth (rate of .452.%) following the adjustments to operating revenues and expenses.	\$ 11,228	\$ 8,499
	<u>Total Customer Growth</u>	<u>\$ 11,228</u>	<u>\$ 8,499</u>
10	<u>Construction Work in Progress</u>		
	To adjust construction work in progress to reflect the amount attributable to South Carolina.	\$ 0	\$ (90,681)
	<u>Total Construction Work in Progress</u>	<u>\$ 0</u>	<u>\$ (90,681)</u>
11	<u>Cash Working Capital</u>		
	To decrease cash working capital following the pro forma adjustments to operation and maintenance expenses (rate of 12.5%) as reflected in the Original Filing.	\$ (116,018)	\$ (133,007)
	<u>Total Cash Working Capital</u>	<u>\$ (116,018)</u>	<u>\$ (133,007)</u>
12	<u>Operating Revenues - Sale and Transportation of Gas</u>		
	To increase revenues from the sale and transportation of gas for the proposed margin increase. ORS has recalculated this adjustment utilizing all ORS adjustments to operating revenues.	\$ 1,833,932	\$ 750,000
	<u>Total Operating Revenues - Sale and Transportation of Gas</u>	<u>\$ 1,833,932</u>	<u>\$ 750,000</u>

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
Twelve Months Ended March 31, 2010
Docket No. 2010-7-G

Settlement Schedule 2

Line No.	Description	Per Piedmont	Per ORS
13	<u>Operations and Maintenance Expenses</u>		
	a. To adjust the provision for uncollectible accounts (.23955%) for the proposed margin increase.	\$ 4,450	\$ 1,797
	b. To increase the utility license fee (rate of .3%) following the adjustment to operating revenues.	5,488	0
	<u>Total Operations and Maintenance Expenses</u>	<u>\$ 9,938</u>	<u>\$ 1,797</u>
14	<u>General Taxes</u>		
	To adjust franchise taxes (rate of .3%) and gross receipts tax (rate of .18698%) for the proposed margin increase.	\$ 0	\$ 3,652
	<u>Total General Taxes</u>	<u>\$ 0</u>	<u>\$ 3,652</u>
15	<u>State Income Taxes</u>		
	To adjust state income taxes (rate of 5%) to reflect the impact on income from the proposed margin increase.	\$ 91,200	\$ 37,228
	<u>Total State Income Taxes</u>	<u>\$ 91,200</u>	<u>\$ 37,228</u>
16	<u>Federal Income Taxes</u>		
	To adjust federal income taxes (rate of 35%) to reflect the impact on income from the proposed margin increase.	\$ 606,478	\$ 247,563
	<u>Total Federal Income Taxes</u>	<u>\$ 606,478</u>	<u>\$ 247,563</u>
17	<u>Customer Growth</u>		
	To adjust net operating income to reflect an anticipated increase in customer growth (rate of .452%) following the proposed margin increase.	\$ 5,068	\$ 2,078
	<u>Total Customer Growth</u>	<u>\$ 5,068</u>	<u>\$ 2,078</u>
18	<u>Operating Revenues - Sale and Transportation of Gas</u>		
	To decrease the revenue requirement for the sale and transportation of gas associated with adjustments for demand and commodity cost.	\$ (823,357)	\$ (925,101)
	<u>Total Operating Revenues - Sale and Transportation of Gas</u>	<u>\$ (823,357)</u>	<u>\$ (925,101)</u>

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
Twelve Months Ended March 31, 2010
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Settlement Schedule 2

<u>Line No.</u>	<u>Description</u>	<u>Per Piedmont</u>	<u>Per ORS</u>
19	<u>Cost of Gas</u>		
a.	To decrease cost of gas for the demand cost over-recovery using a demand cost allocation factor of 16.01%, based upon the most recent design day study.	\$ (512,264)	\$ (512,264)
b.	To decrease cost of gas for commodity cost resulting from the change in the Lost and Unaccounted For factor from 2.16% to 1.77%.	\$ (406,116)	\$ (406,116)
	<u>Total Cost of Gas</u>	<u>\$ (918,380)</u>	<u>\$ (918,380)</u>
20	<u>Operations and Maintenance Expenses</u>		
a.	To decrease the provision for uncollectible accounts (rate of .23955%) following the adjustments to revenue for demand and commodity cost.	\$ (2,228)	\$ (2,216)
b.	To decrease the franchise taxes (rate of .3%) following the adjustments to revenue for demand and commodity cost.	(2,748)	0
	<u>Total Operations and Maintenance Expenses</u>	<u>\$ (4,976)</u>	<u>\$ (2,216)</u>
21	<u>General Taxes</u>		
	To decrease the franchise taxes (rate of .3%) and gross receipts tax (rate of .18698%) for the adjustments to revenue for demand and commodity cost.	\$ 0	\$ (4,505)
	<u>Total General Taxes</u>	<u>\$ 0</u>	<u>\$ (4,505)</u>

Settlement Schedule 3

Order Exhibit 1
Docket No. 2010-7-G
Order No. 2010-689
October 13, 2010